

Livestock, Dairy, and Poultry Outlook

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Cattle Liquidation Ends, Supplies Remain Tight

NOTE: Due to uncertainties as to the length of bans regarding the imports of ruminant products due to the discovery of a BSE-infected cow, forecasts for 2005 assume a continuation of policies currently in place, including the minimal risk rule. However, current forecasts do not include adjustments to the rule announced February 9, 2005.

After 8 years of herd liquidation, kicked off by record corn prices in 1995/96 and sustained by persistent drought in many areas through 2003, the expansion phase of the cattle cycle has begun. The cattle inventory rose 1 percent, nearly 1 million head, from a year earlier. The total cow inventory rose half a percent, with beef cows up less than 1 percent and dairy cows up fractionally. Sharp declines in cow slaughter were largely responsible for the increase in cow numbers over the past year. With another year of modest cow slaughter and increased numbers of replacement heifers calving, this year's calf crop is expected to rise, beginning a period of cyclically rising feeder cattle supplies.

Minimal-Risk Canadian Cattle Imports

The U.S. Department of Agriculture (USDA) is in the process of amending the Code of Federal Regulations to identify regions that present a minimal risk of introducing BSE into the United States. The rule will set forth the factors to be considered when listing a region as one of minimal risk, as well as required risk-mitigating measures. The rule lists Canada as the only minimal-risk region at this time.

The rule, effective March 7, 2005, establishes regulations for the resumption of Canadian live cattle trade, it allows for cattle to be placed in U.S. feedlots

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Tables will be released on
February 23, 2005.

The next newsletter
release is March 16, 2005

Approved by the World
Agricultural Outlook
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under restricted conditions and slaughtered under 30 months of age, and cattle under 30 months of age to be imported for immediate slaughter. The rule can be viewed at: http://www.aphis.usda.gov/lpa/issues/bse/03-080-3_final_rule.pdf

Dairy Replacement Heifer Inventory Increases 3 Percent

Dairy replacement heifers (500 pounds or more) totaled 4.1 million on January 1, up 3 percent from a year earlier. The number of replacement heifers per 100 cows stood at a record 45.9. Heifers expected to calve in 2005 were also up 3 percent. Even without availability of Canadian heifers, replacement of more than 31 percent of the cow herd should be possible in 2005.

U.S. Pork Exports Record Large in 2004

In 2004 exporters shipped 2.2 billion pounds of U.S. pork products to foreign markets, the largest export quantity ever, and a full 27 percent more than in 2003. Pork imports were 7 percent lower than in 2003, due largely to the lower value of the U.S. dollar.

First-quarter prices of live 51-52 percent lean hogs are expected to range between \$51 and \$53 per hundredweight (cwt), almost 18 percent above a year ago. Retail pork prices are expected to average in the low \$2.80s per pound, about 4 percent above the first quarter of 2004.

Fourth-Quarter 2004 Broiler Production at 8.53 Billion Pounds

The first estimate of broiler production for fourth-quarter 2004 is 8.53 billion pounds, up 3.5 percent from the same quarter in 2003. The increase was the result of a higher number of broilers slaughtered (up 2.6 percent) and an increase in their average liveweight (up 1.5 percent). The estimate of production for all of 2004 is 34.06 billion pounds, up 4 percent from the previous year. The outlook for 2005 is for continued growth, though at a slightly lower rate. Broiler exports in fourth-quarter 2004 reached 1.485 billion pounds, the highest quantity exported in any one quarter. With the strengthening of exports in the fourth quarter of 2004, the estimate for the first quarter of 2005 was increased by 90 million pounds to 1.25 billion pounds. This increases the overall export forecast for 2005 to 5.03 billion pounds, the second highest export forecast since the record 5.56 billion pounds in 2001.

Sheep and Lamb Inventory Stabilizes

The inventory of all sheep and lambs stabilized in 2004. On January 1, 2005, the inventory totaled 6.14 million head, up slightly from a year earlier, but still 3 percent down from 2003. This is the first time since 1990 that the sheep and lamb inventory showed an increase. Conditions favor a 1-2 percent increase in inventory during 2005.

Cattle Liquidation Ends, Supplies Remain Tight

After 8 years of herd liquidation, kicked off by record corn prices in 1995/96 and persistent drought in many areas through 2003, the expansion phase of the cattle cycle has begun. The cattle inventory rose 1 percent, nearly 1 million head, from a year earlier. The total cow inventory rose half a percent, with beef cows up less than 1 percent and dairy cows up fractionally. Sharp declines in cow slaughter were largely responsible for the increase in cow numbers over the past year. Cow slaughter declined nearly 16 percent from a year earlier, while the number of heifers calving and entering the cow herd in 2004 declined 9 percent from a year earlier in the first half of the year and 5 percent in the second half (table). Consequently, the 2004 calf crop was down nearly 1 percent from a year earlier and remains the smallest calf crop since 1951. However, with continued strong cow/calf returns over cash costs, producers are retaining more replacement heifers.

The number of beef replacement heifers being retained on January 1, 2005, increased 4 percent, with 3 percent more heifers expected to calf during the year. The number of dairy heifers being retained and expected to calve this year both increased 3 percent. With another year of modest cow slaughter and increased numbers of replacement heifers calving, this year's calf crop is expected to rise, beginning a period of cyclically rising feeder cattle supplies.

Feeder Cattle Supplies Rise

A 7-percent decline in feedlot placements during 2004 and a 6-percent decline in steer and heifer slaughter helped hold up feeder cattle supplies on January 1, 2005. Feeder cattle supplies outside feedlots and available for grazing programs or feedlot placement were up nearly 2 percent from a year earlier, while remaining cyclically low (table). Under the minimal-risk rule, which becomes effective on March 7, feeder cattle under prescribed conditions, can be placed on feed in U.S. feedlots. These cattle must then be slaughtered before 30 months of age. Favorable wheat grazing conditions resulted in 3.1 million head of calves, other heifers, and steers on small grain pastures in Kansas, Oklahoma, and Texas on January 1, 2005; up from 2.9 million head a year earlier and the second largest since the series began in 2002. Poor feedlot returns, largely due to record feeder cattle prices and rising supplies, will pressure stocker feeder/cattle prices this year. However, prices are still likely to average the second highest after last year's record \$104.76. Favorable moisture conditions, increased heifer retention, and increasing, but still cyclically low cattle numbers will hold up prices.

Minimal-Risk Canadian Cattle Imports

As the March 7 date approaches, several new releases and relationships will guide forecasts. The January 1, 2005, *Canadian Cattle Inventory* report will be released February 17. This release will provide a view on the extent that cattle inventories have risen. In 2002, the last year of pre-BSE markets, the United States imported 1.6 million cattle from Canada, partially due to drought in Canada. The Canadian inventory on January 1, 2003, was 13.5 million head and is expected to have risen to just short of 16 million head since the loss of beef/cattle export markets in May 2003.

In 2003, total U.S. commercial cattle slaughter was 35.5 million head. In addition, calf slaughter was 1 million head. In 2004, due to cyclically low cattle numbers and the loss of Canadian cattle imports, slaughter declined to 32.7 million cattle and 843,000 calves. Cattle and calf slaughter plants have reduced slaughter hours, with a number of plants temporarily closed. When the border opens on March 7, U.S. interests will be strong bidders for an expanded Canadian cattle inventory at relatively lower prices. Canadian/U.S. cattle/beef prices will come into more of a normal balance on the products that can be traded.

Beef imports are likely to remain strong in 2005, but are expected to rise only modestly from the 2004 record. Australia continues to market more of its beef in Asia, which continues to ban beef imports from the United States and Canada. U.S. cull prices are expected to remain very strong with slaughter levels remaining at cyclical lows. Cow slaughter in 2004 was the lowest since 1959, and slaughter in 2005 will be little changed. In January, 90 percent lean beef prices were up 10 percent from a year earlier, although down from the highs of last summer. Similarly, 50 percent lean trim prices were up 65 percent from a year earlier, although down from fourth-quarter 2003 prices. Tight U.S. processing beef supplies due to the sharp drop-off in cow slaughter, and the impact of the Canadian bans, tight total U.S. beef supplies and strong demand; are forcing fierce competition among end users.

Although U.S. beef continues to be banned from most Asian markets, strong progress is being made on a scientific-based system for beef and cattle trade involving countries with minimal risk and proper regulations for handling BSE. Both the United States and Canada will benefit from international standards for beef trade. Demand for high quality beef throughout the world remains very strong and North America is the leading source of high quality longer-fed beef. Australia has shifted more of their production toward short-fed beef, but does not have the feed grain production to shift into fed beef production comparable with North America. But even as the trade bans are dropped, North American fed beef supplies will remain tight and prices strong. Regaining U.S. market share, particularly back to pre-BSE levels, will take time and larger U.S. supplies. Even with reopening Canadian trade, once the slaughter/inventory levels between the two countries come into balance, beef supplies will remain tight until 2007 and 2008 as the cattle inventory expansion leads to increased beef production. After this point progress toward historical trade levels with Asia most likely will be possible. Until then U.S. beef prices will remain very high compared with historical levels.

Beef Production To Remain Low; Prices Strong

Although beef production in 2005 is expected to rise 6 percent from the cyclical low of 2004, production will be the second lowest since 1998. Largest year-to-year increases will be in the second and third quarters as the borders open and are against very low slaughter numbers. In addition, 2005 dressed carcass weights are expected to be record high, particularly with the continued low cow slaughter.

While fed cattle prices are expected to decline from the high 2003 and 2004 levels near \$85, prices are still expected to average in the low \$80s, third highest on record. Yearling feeder cattle are expected to follow a similar pattern, with prices

down from the \$104.76 record last year to the second highest average on record in the low \$90s.

Prices for cull Utility cows are expected to remain near last year's record as cow slaughter remains near cyclical lows. Dairy cow numbers remain tight and beef cows for herd replacement will continue to hold down cow slaughter over the next couple of years.

Per Capita Meat Supplies To Rise, Prices Remain Strong

Per capita meat supplies are expected to rise to a record 226 pounds in 2005 with beef rising 3 pounds and poultry consumption up nearly 2 pounds. Per capita supplies rose 2.5 pounds in 2004. Per capita meat consumption has risen fairly steadily with strong retail prices.

Retail prices for Choice beef averaged a record \$4.07 a pound in 2004, up over 8 percent from a year earlier when prices rose 13 percent with closure of Canadian trade. This year retail beef prices are expected to decline 5 to 6 percent, but will still be second only to last year's record. Beef wholesale-retail price spreads remain very wide, even as reduced slaughter levels and fierce competition for tight numbers result in sharply lower farm-wholesale price spreads. Additional slaughter in 2005 and lower prices will support wider packer margins, and increased product will likely result in increased beef specializing.

Dairy Heifer Shortage Eases

Dairy replacement heifers (500 pounds or more) totaled 4.1 million on January 1, up 3 percent from a year earlier. The number of replacement heifers per 100 cows stood at a record 45.9. Heifers expected to calve in 2005 were also up 3 percent. Even without availability of Canadian heifers, replacement of more than 31 percent of the cow herd should be possible in 2005.

Larger replacement supplies have affected heifer prices—but only slightly. Replacement prices in January were down about \$100 from last summer's peak but still up more than \$200 from a year earlier. Strong heifer demand has limited price declines. Replacement prices in 2005 are likely to stay high, although some additional easing is possible. Culling rates in recent years have been much higher than in earlier years, largely offsetting the growing heifer herd. In addition, the tight 2004 heifer supplies probably resulted in retention of some marginal cows that should have been culled then and will be this year.

Still-high 2005 replacement prices probably will mute the influence of slaughter cow prices on milk cow numbers. The difference between heifer prices and salvage value averaged more than \$900 per head in 2004 and probably will stay relatively large in 2005 as both values slip a bit. At such large differences, the marginal effects of changes in cull cow prices are trivial. Heifer growers evidently remain optimistic about longer term prospects for heifer prices as Wisconsin prices for heifer calves have remained about \$300-\$600.

Hogs/Pork

U.S. Pork Exports Record Large in 2004

In 2004 exporters shipped 2.2 billion pounds of U.S. pork products to foreign markets, the largest export quantity ever, and a full 27 percent more than in 2003. Total U.S. pork exports are broken out by tariff code below, with percent shares for each code in 2003 and 2004 appearing to the right:

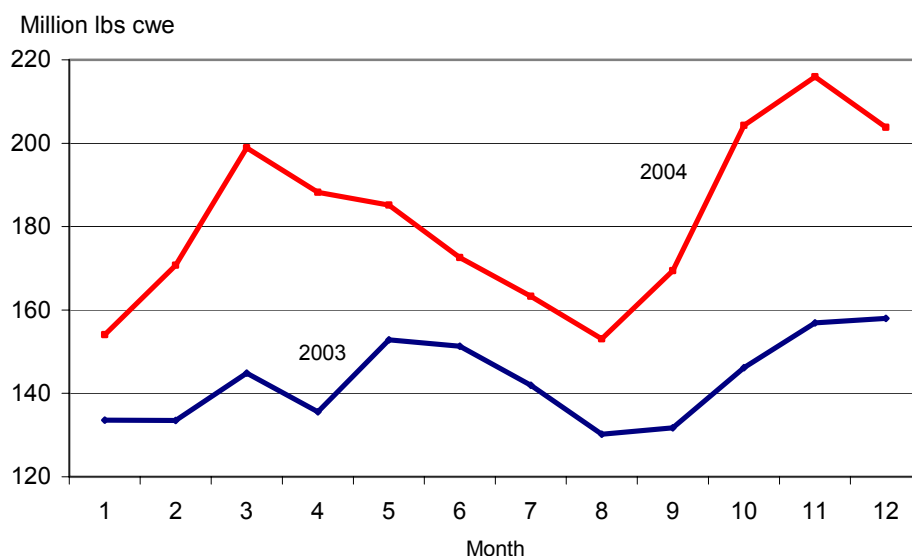
Total U.S. pork export tariff code shares, 2003 and 2004

Tariff Code	Description	Percent of total 2004 U.S. pork exports	Percent of total 2003 U.S. pork exports
0203110000	Carcasses & Half-Carcasses of Swine, Fresh, Chilled	4	4
0203121000	Hams/Shoulders & Cuts, Bone In Processed Frsh/Chld	5	4
0203129000	Hams/Shoulders & Cuts, Bone In Ex Processed FR, CH	15	9
0203192000	Meat of Swine, NESOI, Processed, Fresh or Chilled	8	7
0203194000	Meat of Swine, NESOI, Ex Processed, Fresh or Chilled	22	23
0203210000	Carcasses & Half-Carcasses of Swine, Frozen	1	5
0203221000	Hams/Shoulders & Cuts, Bone In Processed, Frozn	1	1
0203229000	Hams/Shoulders & Cuts, Bone In Ex Processed, Frozn	5	3
0203292000	Meat of Swine, NESOI, Processed, Frozen	4	5
0203294000	Meat of Swine, NESOI, Except Processed, Frozen	35	38

The tariff code break-out shows that in 2004, more hams/shoulders, and fewer carcasses were exported. The largest export volumes in both years are concentrated in non-processed fresh and frozen cuts.

U.S. pork exports are graphed in the figure below for 2003 and 2004. The figure indicates that for the last 2 years, most exports are shipped in the first, second, and fourth quarters of the calendar year. It is likely that Japanese demand drives exports in the first quarter, while attractive U.S. prices draw export interest in the later months of the year.

U.S. pork exports, 2003-2004



The Set of Factors That Drove Exports Last Year Will Be Important Again in 2005

Several factors contributed to the increase in foreign consumer demand for U.S. pork last year, and will likely continue to underpin demand in 2005. In Asia there was—and remains—widespread consumer concerns about meat animal diseases. BSE is chief among such diseases, but Avian Influenza throughout Asia and Porcine Circovirus (PCV) in Taiwan are also on “the list”. Diseases in meat animals translated last year into lower traded supplies of beef and poultry—and higher beef and poultry prices in supply-restricted markets. In response, many Asian consumers increased consumption of pork products. The lower valued U.S. dollar is another important factor that made U.S. pork attractive to foreign buyers last year, and will continue to do so, at least through 2005. The lower valued dollar enhances the competitiveness of U.S. pork products not only against the products of other meat-exporting countries—U.S. pork vis-à-vis Canadian pork competing for Japanese market share, for example—but often against animal products produced in foreign countries for domestic consumption. The lower valued U.S. dollar likely makes U.S. hams competitive in Mexican markets, vis-à-vis Mexican-produced pork products.

The top-four foreign markets for U.S. pork last year were Japan, Mexico, Canada, and Taiwan. Russia was a large importer of U.S. pork in the fourth quarter. The table below sets out U.S. exports to these and other smaller markets last year, and in 2003 for comparison. The country listings also include unit values of exports and quantity and value shares of U.S. exports for 2003 and 2004.

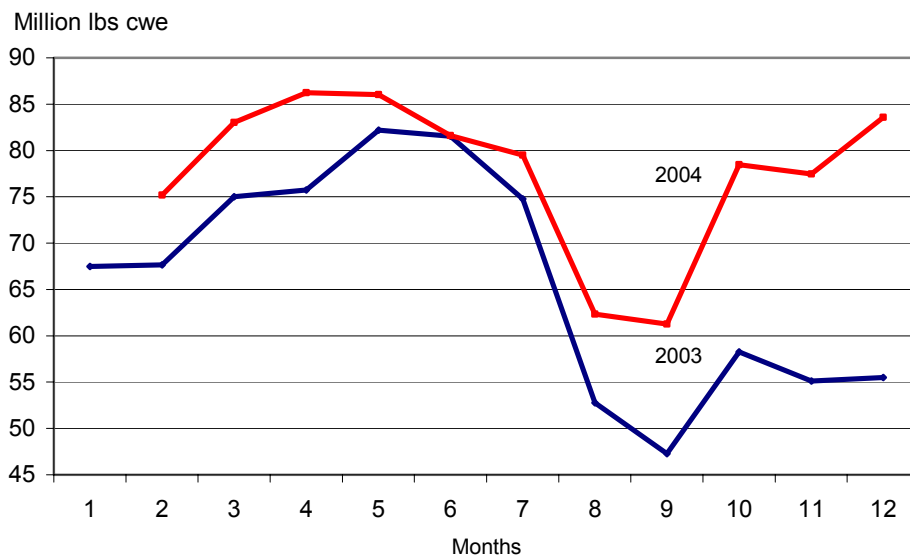
Table 1. U.S. pork exports: Important comparative statistics, 2003-2004*

Country	2003	2004	% Change (2004/2003)
World			
Quantity (million lbs)	1,717	2,179	+27
Export share (%)			
Value (million \$)	1,513	1,989	+31
Unit value (\$/lb.)	.88	.91	+4
Value share (%)			
Japan			
Quantity (million lbs)	793	921	+16
Export share (%)	46	42	-9
Value (million \$)	789	988	+25
Unit value (\$/lb.)	.99	1.07	+8
Value share (%)	52	50	-5
Mexico			
Quantity (million lbs)	350	536	+53
Export share (%)	20	25	+21
Value (million \$)	237	408	+72
Unit value (\$/lb)	.68	.76	+12
Value share (%)	16	21	+31
Canada			
Quantity (million lbs)	192	232	+21
Export share (%)	11	11	0
Value (million \$)	230	303	+32
Unit value (\$/lb)	1.20	1.31	+9
Value share (%)	15	15	0
Taiwan			
Quantity (million lbs)	70	98	40
Export share (%)	4	4.5	+10
Value (million \$)	32	48	+49
Unit value (\$/lb)	.46	.49	+7
Value share (%)	2.1	2.4	+14
Russia			
Quantity (million lbs)	16	67	+308
Export share (%)	1	3	+222
Value (million \$)	6	34	+500
Unit value (\$/lb)	.35	.51	+47
Value share (%)	.4	2	+356
South Korea			
Quantity (million lbs)	80	71	-11
Export share (%)	5	3	-30
Value (million \$)	87	50	-43
Unit value (\$/lb)	1.09	.70	-36
Value share (%)	6	3	-50

Country	2003	2004	% Change (2004/2003)
Hong Kong			
Quantity (million lbs)	45	32	-28
Export share (%)	3	1	-43
Value (million \$)	17	17	0
Unit value (\$/lb)	.39	.54	-37
Value share (%)	1.1	.9	-25
Caribbean			
Quantity (million lbs)	16	24	+50
Export share (%)	1	1.1	+18
Value (million \$)	17	22	+27
Unit value (\$/lb)	1.07	.9	-15
Value share (%)	1	1	0
Central and S. America			
Quantity (million lbs)	40	36	-10
Export share (%)	2	1.6	-29
Value (million \$)	27	28	+3
Unit value (\$/lb)	.67	.77	+14
Value share (%)	2	1	-22
European Union			
Quantity (million lbs)	39	23	-40
Export share (%)	2	1	-50
Value (million \$)	30	20	-35
Unit value (\$/lb)	.79	.84	+7
Value share (%)	2	1	-50
Other			
Quantity (million lbs)	76	139	+83
Export share (%)	4	6	+44
Value (million \$)	40	72	+78
Unit value (\$/lb)	.53	.52	-3
Value share (%)	3	4	+35

*Totals may not sum to unity due to rounding.

U.S. pork exports: Japan, 2003-2004



Japan is Most Important Foreign Market for U.S. Pork

As information in table 1 makes plain, Japan remains the single most important market for U.S. pork products. In 2004 Japan accounted for 42 percent of U.S. exports, almost double the share of the next largest foreign market. In 2004 Japan imported 16 percent more U.S. pork than in 2003. The figure above shows U.S. pork exports to Japan for 2004 and 2003.

In both years, Japanese imports of U.S. pork products were clearly dominated by the dynamics of the pork Safeguard. The Safeguard is a World Trade Organization-sanctioned means for the Japanese Government to shield domestic pork producers from surges of imported pork products. When the Safeguard is in effect it increases the minimum import price of most pork products. In recent years, the mere threat of a Safeguard has induced importers to bring in large quantities of foreign pork before the higher minimum import price went into effect. In the years when the Safeguard is a factor, U.S. exports build from January through June, the ending month of the first quarter of the Japanese April-March fiscal year. For the fourth year in a row, the Safeguard was imposed on August 1, 2004. At the higher minimum import price, Japanese imports tail off through September. In most years there is a jump in Japanese demand for imported pork for holiday-related consumption, beginning in October.

Japanese imports of U.S. pork products in 2004 are broken out below by tariff code. The breakout shows that Japanese demand is centered on non-processed cuts of fresh and frozen pork, with smaller shares distributed between fresh and frozen carcasses, hams, and other "Not Elsewhere Specified or Included" (NESOI) products.

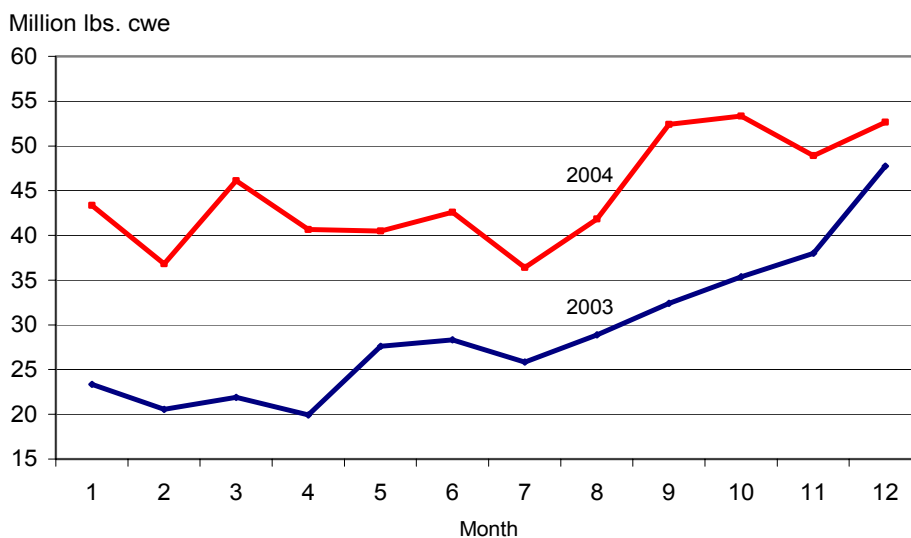
2004 U.S. pork exports to Japan, tariff code shares

Tariff code	Description	Percent of 2004 U.S. Exports To Japan
0203110000	Carcasses & Half-Carcasses of Swine, Fresh, Chilled	6
0203129000	Hams/Shoulders & Cuts, Bone In Ex Processed FR, CH	7
0203192000	Meat of Swine, NESOI, Processed, Fresh or Chilled	4
0203194000	Meat of Swine, NESOI, Ex Processed, Fresh or Chilled	35
0203210000	Carcasses & Half-Carcasses of Swine, Frozen	3
0203229000	Hams/Shoulders & Cuts, Bone In Ex Processed, Frozn	1
0203292000	Meat of Swine, NESOI, Processed, Frozen	4
0203294000	Meat of Swine, NESOI, Except Processed, Frozen	40

Mexico is Second Most Important Export Market, With Potential To Grow

The country information in table 1 indicates that last year Mexico's imports of U.S. pork increased 53 percent over 2003, to 536 million pounds, and accounted for 25 percent of U.S. imports. The figure below depicting U.S. exports to Mexico in 2003 and 2004 shows a marked seasonal increase in the second half of the calendar year. The breakout of U.S. pork exports to Mexico by tariff code, below, indicates that hams and shoulder cuts dominated Mexican demand last year.

U.S. Pork Exports: Mexico, 2003-2004



2004 U.S. pork exports to Mexico, tariff code shares

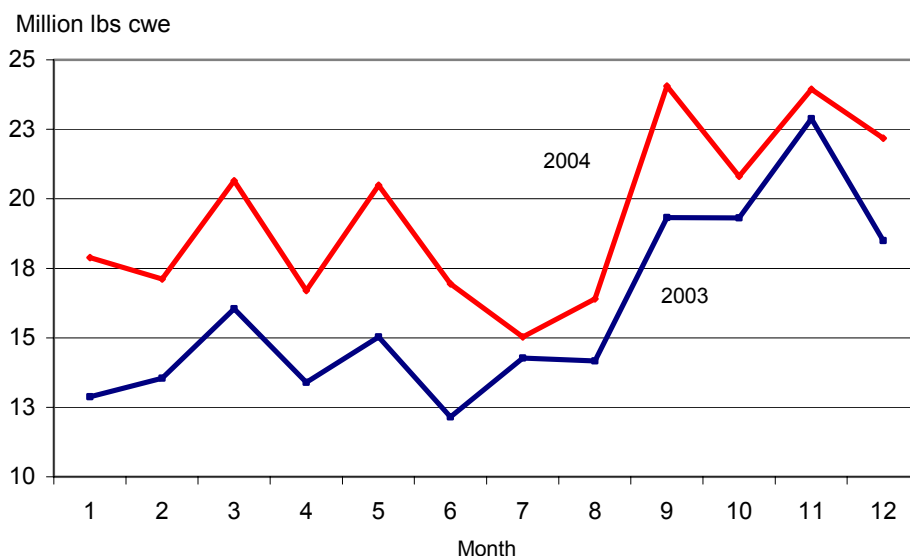
Tariff Code	Description	Percent of 2004 U.S. Exports To Mexico
0203110000	Carcasses & Half-Carcasses of Swine, Fresh, Chilled	5
0203121000	Hams/Shoulders & Cuts, Bone In Processed Frsh/Chld	15
0203129000	Hams/Shoulders & Cuts, Bone In Ex Processed FR, CH	49
0203192000	Meat of Swine, NESOI, Processed, Fresh or Chilled	2
0203194000	Meat of Swine, NESOI, Ex Processed, Fresh or Chilled	9
0203221000	Hams/Shoulders & Cuts, Bone In Processed, Frozn	1
0203229000	Hams/Shoulders & Cuts, Bone In Ex Processed, Frozn	7
0203292000	Meat of Swine, NESOI, Processed, Frozen	2
0203294000	Meat of Swine, NESOI, Except Processed, Frozen	10

The primary set of economic factors that drove U.S. pork exports in 2004—exchange rates, BSE concerns, domestic production problems—do little to explain the 53 percent increase in U.S. exports to Mexico. Pork production in Mexico increased almost 5 percent in 2004. From January through September 2004, pork carcass average wholesale prices in Mexico City were 10 percent above a year earlier. The peso depreciated almost 3 percent against the U.S. dollar last year, making imported meat products relatively more expensive. The Mexican border was closed to U.S. beef products early in 2004 due to BSE concerns, but has since re-opened to a limited set of U.S. beef cuts, with U.S. beef exports to Mexico recovering as well. This particular set of factors suggests that U.S. pork exports to Mexico should have declined last year, rather than increased.

Two factors that have likely contributed to increased Mexican demand for U.S. pork products over the past 5 years are economic growth and the ongoing development of the Mexican retail sector. Economic growth increases consumers' disposable income, while a developing retail sector has been increasing quantities of desirable, attractively priced products to consumers. Last year the Mexican economy grew at a real rate of 3.8 percent. In 2005, the real growth rate is expected to be 4 percent.

Perhaps an indicator of retail sector development in Mexico is the growing presence of large scale North American retailers in Mexico. For example, data from Costco indicate that the company operates 22 warehouse stores in 16 Mexican cities, including five stores in the Mexico City area. WalMart operates 695 units in over 73 Mexican cities. Continued expansion of retailers with well-developed North American distribution channels, supplying reasonably-priced, quality goods to a growing Mexican middle class, could be one of the more subtle factors explaining the continuing growth of U.S. pork exports to Mexico.

U.S. pork exports: Canada, 2003-2004



2004 Exports to Canada Increased 21 Percent Over 2003

Canada accounted for 11 percent of U.S. pork exports last year, making it the third most important foreign buyer in 2004. Exporters shipped 232 million pounds of pork to Canada last year, an increase of 21 percent over 2003. The figure above showing U.S. pork exports to Canada for 2003 and 2004 suggests seasonally accelerating shipments, beginning in the summer.

Shares of U.S. pork exports to Canada in 2004 are broken out by tariff line below, and indicate that the most important exports categories last year were those for fresh and frozen pork cuts. Fresh, processed cuts comprised 64 percent of total exports. Frozen, unprocessed cuts were the second largest category, accounting for 17 percent of exports.

2004 U.S. pork exports to Canada, tariff code shares

Tariff Code	Description	Percent of 2004 U.S. exports to Canada
0203121000	Hams/Shoulders & Cuts, Bone In Processed Frsh/Chld	14
0203192000	Meat of Swine, NESOI, Processed, Fresh or Chilled	64
0203229000	Hams/Shoulders & Cuts, Bone In Ex Processed, Frozn	3
0203292000	Meat of Swine, NESOI, Processed, Frozen	2
0203294000	Meat of Swine, NESOI, Except Processed, Frozen	17

Market Integration Can Sometimes Mean That a Primal/Cut Makes Several Trips Across the U.S.-Canadian Border

A result of the ongoing integration of the North American pork industry not explicitly captured in the U.S. trade data is a likely growing re-export/re-import trade. An example of re-export/re-import trade currently taking place is where U.S. processors import Canadian bone-in hams, for boning in U.S. facilities. The boneless hams are exported Canada, for final sale there, or for further processing and re-export to the United States for retail sale as high-end “imported” hams.

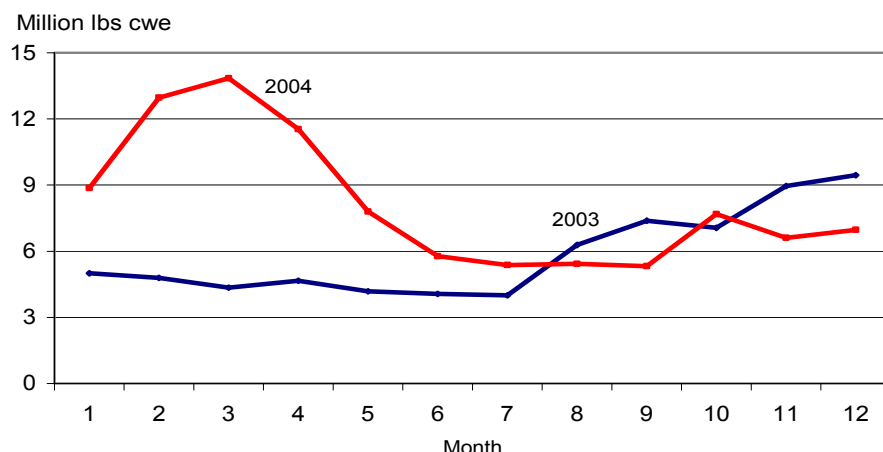
Disease Issues Drive Taiwanese Demand for U.S. Pork

Taiwan was the fourth largest market for U.S. pork in 2004, accounting for 4.5 percent of exports. Taiwan imported 98 million pounds of U.S. pork last year, an increase of 40 percent over 2003. Taiwanese demand for imported pork was largely a result of lower domestic pork production and consumer substitution of pork in place of imported U.S. beef. Pork production in Taiwan was diminished last year by Porcine Circovirus, a disease fatal to young pigs. Also, with BSE-related import restrictions still in place on U.S. beef, it is likely that consumers substituted some pork products in their diets in place of beef. A breakout of Taiwanese imports of U.S. pork by tariff line indicates a strong demand for frozen pork cuts, both processed and unprocessed.

2004 U.S. pork exports to Taiwan, tariff code shares

Tariff Code	Description	Percent of 2004 U.S. exports to Taiwan
0203129000	Hams/Shoulders & Cuts, Bone In Ex Processed FR, CH	2
0203194000	Meat of Swine, NESOI, Ex Processed, Fresh or Chilled	6
0203210000	Carcasses & Half-Carcasses of Swine, Frozen	3
0203229000	Hams/Shoulders & Cuts, Bone In Ex Processed, Frozn	5
0203292000	Meat of Swine, NESOI, Processed, Frozen	10
0203294000	Meat of Swine, NESOI, Except Processed, Frozen	74

U.S. pork exports: Taiwan, 2003-2004

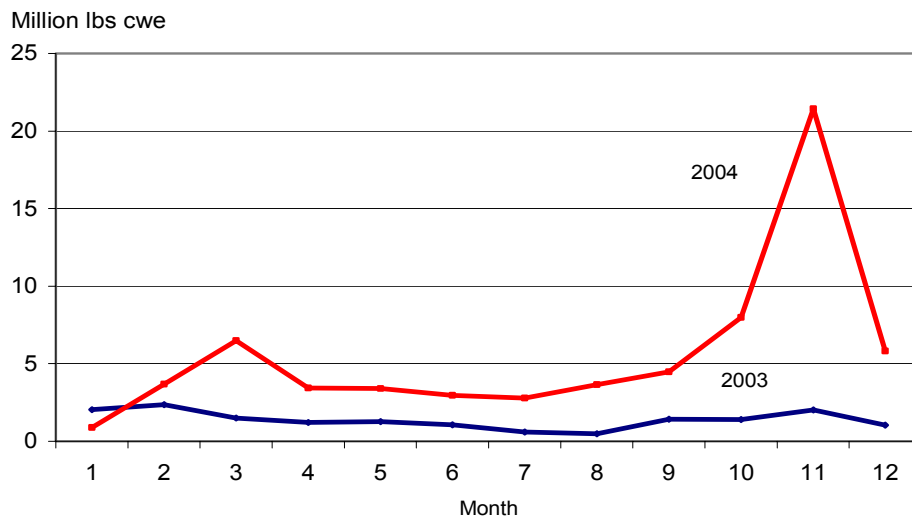


Strong Russian Demand in the Fourth Quarter Linked to Import Quota

In 2004, more than half of Russia's 67 million pounds of U.S. pork imports were shipped in the fourth quarter. Despite low imports in the first three quarters, Russia was the sixth largest export market last year. The dynamics of U.S. pork exports to Russia for 2003 and 2004 are shown in the figure below.

Since 2003, Russian pork imports have been restricted by country-specific quotas. Last year, the U.S. quota was 93 million pounds, product-weight equivalent (pwe) (42,200 MT, pwe). In 2005 the announced U.S. quota is almost 119 million pounds, pwe (53,800 MT, pwe). The breakout of U.S exports to Russia by tariff code indicates that Russian demand is concentrated toward frozen hams and shoulders, and other non-specified frozen cuts of pork.

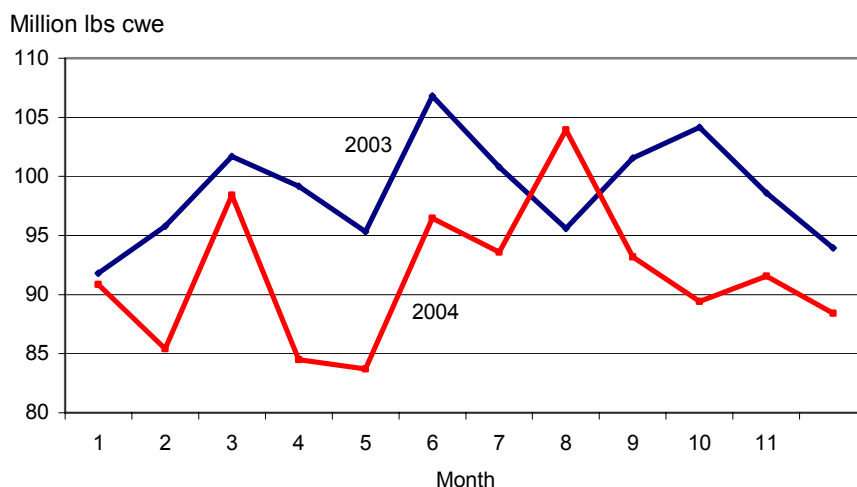
U.S. pork exports: Russia, 2003-2004



2004 U.S. pork exports to Russia, tariff code shares

Tariff Code	Description	Percent of 2004 U.S. exports to Russia
0203121000	Hams/Shoulders & Cuts, Bone In Processed Frsh/Chld	1
0203129000	Hams/Shoulders & Cuts, Bone In Ex Processed FR, CH	3
0203192000	Meat of Swine, NESOI, Processed, Fresh or Chilled	2
0203194000	Meat of Swine, NESOI, Ex Processed, Fresh or Chilled	3
0203221000	Hams/Shoulders & Cuts, Bone In Processed, Frozn	2
0203229000	Hams/Shoulders & Cuts, Bone In Ex Processed, Frozn	19
0203292000	Meat of Swine, NESOI, Processed, Frozen	5
0203294000	Meat of Swine, NESOI, Except Processed, Frozen	65

U.S. pork imports, 2003-2004



Imports

Last year the United States imported 1.1 billion pounds of pork products, 7 percent less than in 2003. Most imported pork—81 percent—came from Canada. The second largest pork exporter to the United States was Denmark, which accounted for 13 percent of U.S. imports last year. The figure above showing U.S. pork imports for 2004 and the year before indicates that 2004 import levels fell below those of 2003 in all months except August.

Lower imports are likely being driven to a large degree by the weakness of the U.S. dollar. At the beginning of 2004, one U.S. dollar could buy 1.3 Canadian dollars, or 5.9 Danish Kroner. By the end of 2004 one U.S. dollar could buy 1.2 Canadian dollars or 5.5 Danish kroner. This means that by the end of 2004, it took more dollars to buy goods denominated in Canadian dollars and Danish kroner than were necessary at the beginning of the year. In general, products imported into the United States become more expensive when the U.S. dollar is depreciating in value—and thus the quantity of imported products demanded declines, everything else equal. Table 2 sets out important comparative statistics for U.S. pork imports for 2004 and 2003. The lower valued U.S. dollar is evident in the comparatively higher year-over-year unit values for imported pork in 2004, while at the same time, import quantities are lower.

Total U.S. pork import tariff code shares for 2003 and 2004 set out below, show that U.S. import demand is directed toward fresh product, which last year included unspecified cuts, hams, shoulders, and bellies. Tariff code shares for Canada, also listed, indicate that 86 percent of Canadian pork exports to the United States were fresh product, including unspecified fresh cuts, hams and bellies. The 2004 tariff code breakout for Denmark shows a specialization toward frozen unprocessed pork cuts.

Table 2. U.S. pork imports: Important comparative statistics, 2003-2004*

Country	2003	2004	% Change (2004/2003)
World			
Quantity (million lbs)	1,185	1,099	-7
Export share (%)			
Value (million \$)	1,217	1,402	+15
Unit value (\$/lb)	1.03	1.28	+24
Value share (%)			
Canada			
Quantity (million lbs)	971	886	-9
Export share (%)	82	81	-2
Value (million \$)	896	1,024	+14
Unit value (\$/lb)	.92	1.16	+25
Value share (%)	74	73	-1
Denmark			
Quantity (million lbs)	147	139	-6
Export share (%)	12	13	+2
Value (million \$)	205	230	+12
Unit value (\$/lb)	1.39	1.66	+19
Value share (%)	17	16	-3
Other			
Quantity (million lbs) 67		75	+13
Export share (%)	6	7	+21
Value (million \$)	117	148	+27
Unit value (\$/lb)	1.75	1.97	+13
Value share (%)	10	11	+10

*Totals may not sum to unity due to rounding.

Total U.S. pork import tariff code shares 2003 and 2004

Tariff Code	Description	Percent of total 2004 U.S. pork imports	Percent of total 2003 U.S. pork imports
(0203110000)	CARCASSES & HALF-CARCASSES OF SWINE FRESH, CHILLED	1	1
(0203129010)	HAMS & CUTS THEREOF, BONE IN EX PROCESSD FRSH/CHLD	15	14
(0203129020)	SHOULDERS & CUTS, SWINE, BONE IN EX PROCESSD FR/CH	7	8
(0203192010)	SPARE RIBS, SWINE, PROCESSED, FRESH OR CHILLED	1	1
(0203194010)	BELLIES OF SWINE, NESOI, EX PROCESSED, FRESH/CHLLD	12	8
(0203194090)	MEAT OF SWINE, NESOI, EX PROCESSED, FRESH/CHILLED	34	41
(0203229000)	HAMS/SHOULDERS & CUTS, BONE IN EX PROCESSED, FROZN	2	3
(0203294000)	MEAT OF SWINE, NESOI, EXCEPT PROCESSED, FROZEN	27	24

U.S. pork imports from Canada tariff code shares, 2004

Tariff Code	Description	Percent of 2004 U.S. imports from Canada
(0203110000)	CARCASSES & HALF-CARCASSES OF SWINE FRESH, CHILLED	2
(0203129010)	HAMS & CUTS THEREOF, BONE IN EX PROCESSD FRSH/CHLD	18
(0203129020)	SHOULDERS & CUTS, SWINE, BONE IN EX PROCESSD FR/CH	9
(0203192010)	SPARE RIBS, SWINE, PROCESSED, FRESH OR CHILLED	1
(0203194010)	BELLIES OF SWINE, NESOI, EX PROCESSED, FRESH/CHLLD	14
(0203194090)	MEAT OF SWINE, NESOI, EX PROCESSED, FRESH/CHILLED	40
(0203229000)	HAMS/SHOULDERS & CUTS, BONE IN EX PROCESSED, FROZN	2
(0203294000)	MEAT OF SWINE, NESOI, EXCEPT PROCESSED, FROZEN	14

U.S. pork imports from Denmark tariff code shares, 2004

Tariff Code	Description	Percent of 2004 U.S. imports from Denmark
(0203192010)	SPARE RIBS, SWINE, PROCESSED, FRESH OR CHILLED	1
(0203292000)	MEAT OF SWINE, NESOI, PROCESSED, FROZEN	1
(0203294000)	MEAT OF SWINE, NESOI, EXCEPT PROCESSED, FROZEN	98

Fourth-Quarter 2004 Broiler Production at 8.53 Billion Pounds

The first estimate of broiler production for fourth-quarter 2004 is 8.53 billion pounds, up 3.5 percent from the same quarter in 2003. The increase was the result of a higher number of broilers being slaughtered (up 2.6 percent) and an increase in their average live weight (up 1.5 percent). With the fourth-quarter estimate, production for 2004 is 34.06 billion pounds, up 4 percent from the previous year. The outlook for 2005 is for continued growth, up at a slightly lower rate.

Broiler exports in fourth-quarter 2004 reached 1.485 billion pounds, the highest exported in any one quarter. With the strengthening of exports in the fourth quarter of 2004, the estimate for the first quarter of 2005 was increased by 90 million pounds to 1.25 billion pounds. This increases the overall export forecast for 2005 to 5.03 billion pounds, the highest quantity exported since the record 5.56 billion pounds in 2001. With the exception of wings, prices for most broiler products are still lower than what they were at the start of February 2004. As of the beginning of February 2005, whole wing prices in the southern market were approximately \$1.21 per pound, up about 3 cents per pound from the same time in 2004.

Total exports for 2004 were 4.767 billion pounds, down 3 percent from the previous year. The decline in exports occurred mostly in the first-half of 2004 due to a combination of high domestic prices and export restrictions due to Avian Influenza (AI) in the United States. Countering lower exports to such key markets as Russia (down 3 percent) and China/Hong Kong (down 56 percent), exports to Canada, Mexico, and the New Independent States (NIS) rose strongly. At the present time broiler exports are free of most disease-related restrictions. So far in 2005 there has been a number of AI outbreaks in Southeast Asia, with the most serious in Vietnam where millions of broilers and ducks have been culled. Vietnam has also suffered a number of human deaths among people disposing of dead or infected birds.

Even with slightly lower exports in terms of volume, the broiler industry enjoyed a strong year in terms of overall export value. While the volume of broiler products was down 3 percent, the value of these exports rose to \$1.734 billion, up 16 percent from the previous year.

Turkey Meat Production Falls in 2004, Weights Increase

The number of turkeys slaughtered in 2004 was 254 million birds, down 5 percent from the previous year and meat production was down by 3.6 percent. The reason that turkey meat was not down more was that average turkey live weight at slaughter rose to just over 27 pounds, up 1.1 percent from the previous year. Due to the slightly stronger-than-expected production and hatchery data in fourth-quarter 2004, the estimates for the first two quarters of 2005 were increased. The estimate for the first quarter of 2005 was moved higher by 40 million pounds to 1.33 billion pounds, and the estimate for the second quarter of 2005 was increased by 20 million pounds to 1.4 billion.

Turkey exports in 2004 were 443 million pounds, down 8.5 percent from the previous year. Most of the decline was due to reduced shipments to a number of Asian countries. Shipments to China/Hong Kong, Japan, and Korea were all down

over 30 percent from the previous year. Partially offsetting these declines were higher exports to Canada, Mexico, Russia, and the NIS countries. Turkey exports followed much the same pattern as broiler exports in that the quantity of shipments was down but the value of shipments was up strongly. During 2004 shipments of turkey meat and products totaled \$300 million, up almost 13 percent from the previous year.

Sheep and Lamb Inventory Stabilizes

The inventory of all sheep and lambs stabilized in 2004. On January 1, 2005, the inventory totaled 6.14 million head, up slightly from a year earlier, but still 3 percent down from 2003. This is the first time since 1990 that the sheep and lamb inventory showed an increase. Conditions favor a 1-2 percent increase in inventory during 2005. Among the top five sheep producing States, increases were in Colorado (1 percent), South Dakota (1 percent), and Wyoming (5 percent). Several small sheep-producing States also saw increases. These include Illinois (10 percent), Kentucky (23 percent), Pennsylvania (11 percent), and Virginia (11 percent). However, Texas, the largest sheep producing State, showed a 3-percent drop and California, the second largest sheep producing State saw a 1-percent drop.

The breeding sheep inventory increased 1 percent from a year ago. Wyoming had a 10,000-head increase in breeding sheep and lambs and a 5,000-head increase was seen in Utah. The replacement lamb inventory was 10 percent above a year earlier, an indication that the ewe lamb retention program was helpful. This is the first year that ewe retention has shown a marked increase since the implementation of the retention programs in 2001. Increases in replacements were highest in Texas (25,000), South Dakota (6,000), Colorado (4,000), and Montana (5,000). On January 27, 2004, USDA provided \$18.85 million for the 2003/04 fiscal year for the payment to sheep and lamb producers to encourage the replacement and retention of the ewe lamb breeding stock. The program was designed to give producers an opportunity to enhance the genetics of their ewe lamb breeding stock. The sheep industry was involved in a ewe lamb retention program as part of its 3-year, \$100 million, Lamb Industry Assistance Package, instituted in January 2000.

The success of last year's ewe lamb retention program was bolstered by a number of factors: high prices, strong demand, improved weather conditions in the western United States, and the increased value of the Australian dollar, the U.S. sheep and lamb major competitor, relative to the U.S. dollar. Tight supplies throughout 2004 kept prices strong, and slaughter lamb prices were at an all-time high. The San Angelo lamb price averaged \$96.69 per cwt, an increase of 5.1 percent from 2003. Due to the boost in demand for the upcoming religious holiday season in the first quarter of 2005, slaughter lamb prices are expected to exceed \$100 per cwt. Tight supplies are expected to support prices in later quarters. The expectation of continued strong prices could foster further retention and herd rebuilding in 2005.

Lamb and mutton production continues to be tight, due in part, to increased retention of replacement ewes and lower-than-expected imports. Commercial lamb and mutton production totaled 194 million pounds in 2004, down 3-percent from 2003. First-quarter 2005 lamb and mutton production is expected to be 51 million pounds, down slightly from the same period in 2004. Heavier animals may help to mitigate the production decline during the religious holiday season. Animals from the retained ewe lambs are not expected to affect the market until late 2005-early 2006.

Despite strong U.S. lamb and mutton demand, tight domestic supplies, and strong prices, lamb imports in 2004 increased 7.7 percent over 2003. The increased value of the Australian dollar in 2004 has made it less attractive for U.S. wholesalers to

import Australian lamb. Imports for the first quarter of 2005 are expected to be down about 11 percent from the same period in 2004. In addition, imports in 2005 are expected to increase at about half the rate of 2004.

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Data

Colorado State University's Livestock Marketing Information Center (<http://www.lmic.info>) now houses the retail scanner prices for meat database (<http://www.lmic.info/meatscanner/meatscanner.shtml>), including standard tables, the searchable database, and documentation. The raw data underlying the database are from supermarkets across the United States that account for about 20 percent of supermarket sales. Erica Rosa, 720-544-2941.

Recent Report

"U.S. 2003 and 2004 Livestock and Poultry Trade Influenced by Animal Disease and Trade Restrictions" discusses how animal diseases have influenced trade in animal products in the past few years, and is available at <http://www.ers.usda.gov/publications/LDP/JUL04/LDPM12001/>

Related Websites

Animal Production and Marketing Issues, <http://www.ers.usda.gov/briefing/AnimalProducts/>
Cattle, <http://www.ers.usda.gov/briefing/cattle/>
Dairy, <http://www.ers.usda.gov/briefing/dairy/>
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Red meat and poultry forecasts

	2001	2002	2003	2004	2005								
	Annual	Annual	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
Production, million lb													
Beef	26,107	27,090	26,238	5,834	6,254	6,360	6,096	24,544	6,050	6,725	6,925	6,350	26,050
Pork	19,138	19,664	19,945	5,130	4,897	5,046	5,435	20,508	5,200	4,950	5,050	5,475	20,675
Lamb and mutton	223	219	199	52	46	46	50	194	51	49	49	52	201
Broilers	31,266	32,240	32,749	8,208	8,491	8,834	8,531	34,064	8,450	8,775	9,075	8,825	35,125
Turkeys	5,562	5,713	5,650	1,302	1,365	1,387	1,389	5,443	1,325	1,400	1,400	1,450	5,575
Total red meat & poultry	83,006	85,669	85,476	20,687	21,220	21,849	21,669	85,425	21,240	22,072	22,681	22,324	88,317
Table eggs, mil. doz.	6,078	6,190	6,207	1,554	1,572	1,595	1,633	6,354	1,590	1,610	1,615	1,650	6,465
Per capita consumption, retail lb 1/													
Beef	66.2	67.6	64.9	16.0	16.9	16.9	16.2	66.0	16.3	17.8	18.2	16.6	68.9
Pork	50.2	51.5	51.8	13.0	12.4	12.7	13.2	51.3	12.7	12.3	12.7	13.5	51.2
Lamb and mutton	1.1	1.2	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.2
Broilers	76.6	80.5	81.6	20.9	21.2	21.8	20.6	84.5	20.7	21.5	22.5	21.5	86.2
Turkeys	17.5	17.7	17.4	3.6	4.0	4.4	5.1	17.1	3.4	3.8	4.0		11.2
Total red meat & poultry	213.6	220.5	218.9	54.1	55.1	56.5	55.7	221.4	54.1	56.1	58.1	57.7	226.0
Eggs, number	252.7	255.5	254.7	63.6	63.7	63.9	65.3	256.5	63.2	63.9	63.9	65.4	256.4
Market prices													
Choice steers, Neb., \$/cwt	72.71	67.04	84.69	82.16	88.15	83.58	85.09	84.75	84-86	80-84	77-83	78-84	79-85
Feeder steers, Ok City, \$/cwt	88.20	80.04	89.85	87.98	104.58	116.27	110.19	104.76	94-96	89-93	89-95	91-97	90-96
Boning utility cows, S. Falls, \$/cwt	44.39	39.23	46.62	47.50	54.86	56.25	50.78	52.35	51-53	52-56	50-54	50-54	51-54
Choice slaughter lambs, San Angelo, \$/cwt	72.04	72.31	91.98	100.62	97.06	93.62	95.44	96.69	101-103	94-98	92-98	93-99	94-100
Barrows & gilts, N. base, l.e. \$/cwt	45.81	34.92	39.45	44.18	54.91	56.58	54.35	52.51	51-53	51-55	46-50	40-44	47-50
Broilers, 12 City, cents/lb	59.10	55.60	62.00	73.20	79.30	75.70	68.30	74.10	71-73	71-75	71-77	71-77	71-76
Turkeys, Eastern, cents/lb	66.30	64.50	62.10	62.10	66.60	73.10	77.10	69.70	66-68	67-71	69-75	73-79	69-73
Eggs, New York, cents/doz.	67.20	67.10	87.90	114.90	79.70	66.20	68.00	82.20	66-68	60-64	62-68	68	64-68
U.S. trade, million lb													
Beef & veal exports	2,269	2,447	2,518	36	120	138	167	461	140	170	180	150	640
Beef & veal imports	3,164	3,218	3,006	873	929	940	937	3,679	920	930	930	880	3,660
Lamb and mutton imports	146	162	168	62	47	34	38	181	55	48	45	42	190
Pork exports	1,560	1,611	1,717	523	546	486	624	2,179	575	580	530	600	2,285
Pork imports	951	1,070	1,185	275	265	291	268	1,099	270	285	305	335	1,195
Broiler exports	5,555	4,807	4,920	1,024	1,008	1,250	1,485	4,767	1,250	1,260	1,245	1,270	5,025
Turkey exports	487	439	484	83	93	134	133	443	120	120	130	140	510

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

Source: World Agricultural Supply and Demand Estimates and Supporting Materials.

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Economic Indicator Forecasts

	2003		2004					2005				
	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
GDP, chain wtd (bil. 2000 dol.)	10,599	10,381	10,709	10,778	10,883	10,983	10,837	11,074	11,168	11,262	11,356	11,216
CPI-U, annual rate (pct.)	0.9	1.9	3.6	4.7	1.9	2.5	3.2	2.3	2.2	2.2	2.3	2.2
Unemployment (pct.)	5.9	6.0	5.6	5.6	5.4	5.4	5.5	5.3	5.3	5.2	5.2	5.3
Interest (pct.)												
3-month Treasury bill	0.9	1.0	0.9	1.1	1.5	1.9	1.4	2.3	2.5	2.9	3.3	2.7
10-year Treasury bond yield	4.3	4.0	4.0	4.6	4.3	4.3	4.3	4.5	4.7	5.0	5.1	4.8

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, November 2004.

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Dairy Forecasts

	2003		2004					2005				
	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
Milk cows (thous.)	9,011	9,084	8,990	8,998	9,031	9,018	9,009	8,980	8,960	8,945	8,940	8,955
Milk per cow (pounds)	4,609	18,748	4,750	4,858	4,670	4,646	18,924	4,835	5,000	4,780	4,790	19,405
Milk production (bil. pounds)	41.5	170.3	42.7	43.7	42.2	41.9	170.5	43.4	44.8	42.8	42.8	173.8
Commercial use (bil. pounds)												
milkfat basis	45.3	174.6	42.1	43.7	44.5	45.6	175.8	42.7	44.0	45.3	46.0	178.0
skim solids basis	42.0	166.2	42.4	43.2	43.3	44.3	173.2	43.7	44.4	44.3	44.2	176.6
Net removals (bil. pounds)												
milkfat basis	0.0	1.2	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
skim solids basis	0.7	8.1	0.8	0.1	0.4	0.0	1.3	0.0	0.1	0.3	0.5	0.8
Prices (dol./cwt)												
All milk 1/	14.40	12.52	14.07	18.60	15.47	16.00	16.03	15.50 -15.80	13.60 -14.20	13.35 -14.25	14.30 -15.30	14.20 -14.90
Class III	13.24	11.42	12.66	19.31	14.54	15.06	15.39	13.40 -14.40	12.30 -13.30	12.30 -13.30	12.65 -13.65	12.65 -13.65
Class IV	10.33	10.00	12.43	14.26	12.92	13.19	13.20	12.55 -12.95	11.95 -12.65	11.85 -12.85	12.00 -13.10	12.10 -12.90

1/ Simple averages of monthly prices. May not match reported annual averages.